

MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Montana Board of Investments

For the Two Fiscal Years Ended June 30, 2010

DECEMBER 2010

10-04A

REPORT SUMMARY

For the consolidated unified investment program, the value of assets managed by the Board of Investments (Board) increased over \$490 million from June 30, 2009. During fiscal year 2010, the Board received \$28 million in repayments on previously defaulted securities, bringing the total outstanding investments in default status to \$85.6 million at fiscal year-end. Since June 30, 2010, the Board has received an additional \$5.1 million in principal and interest on these defaulted securities.

Context

The Board manages the Unified Investment Program (program), which had net assets of \$12.9 billion at June 30, 2010. To manage the program, the Board created seven investment pools that operate similar to mutual funds. Those pools are: Retirement Funds Bond Pool, Trust Funds Investment Pool, Montana Domestic Equity Pool, Montana Private Equity Pool, Montana Real Estate Pool, Short Term Investment Pool, and All Other Fund Investments Managed. The Board invests for the state and local governments. Local government entities may only invest in the Short Term Investment Pool portion of the program.

The Board's Enterprise Fund accounts for the state's Economic Development Bond Act and Municipal Finance Consolidation Act programs. Under the Municipal Finance Consolidation Act, the Board is authorized to issue up to \$190 million in INTERCAP bonds. During fiscal year 2010, the program issued \$12 million in bonds, bringing total outstanding INTERCAP bonds to just over \$96 million.

The Board employs an executive director and chief investment officer who in turn hire and manage staff. The staff members advise the Board, implement its decisions, and perform daily investment, economic development, and record keeping functions.

Results

This report contains one recommendation regarding the investment of state funds in equity securities.

The prior financial-compliance audit report included two recommendations regarding the Board's involvement in the construction of the Montana State Fund building and implementing procedures to properly account for investments in default status in accordance with generally accepted accounting principles. Over the past two years, the Board has implemented both recommendations.

Recommendation Concurrence

Concur	1
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.